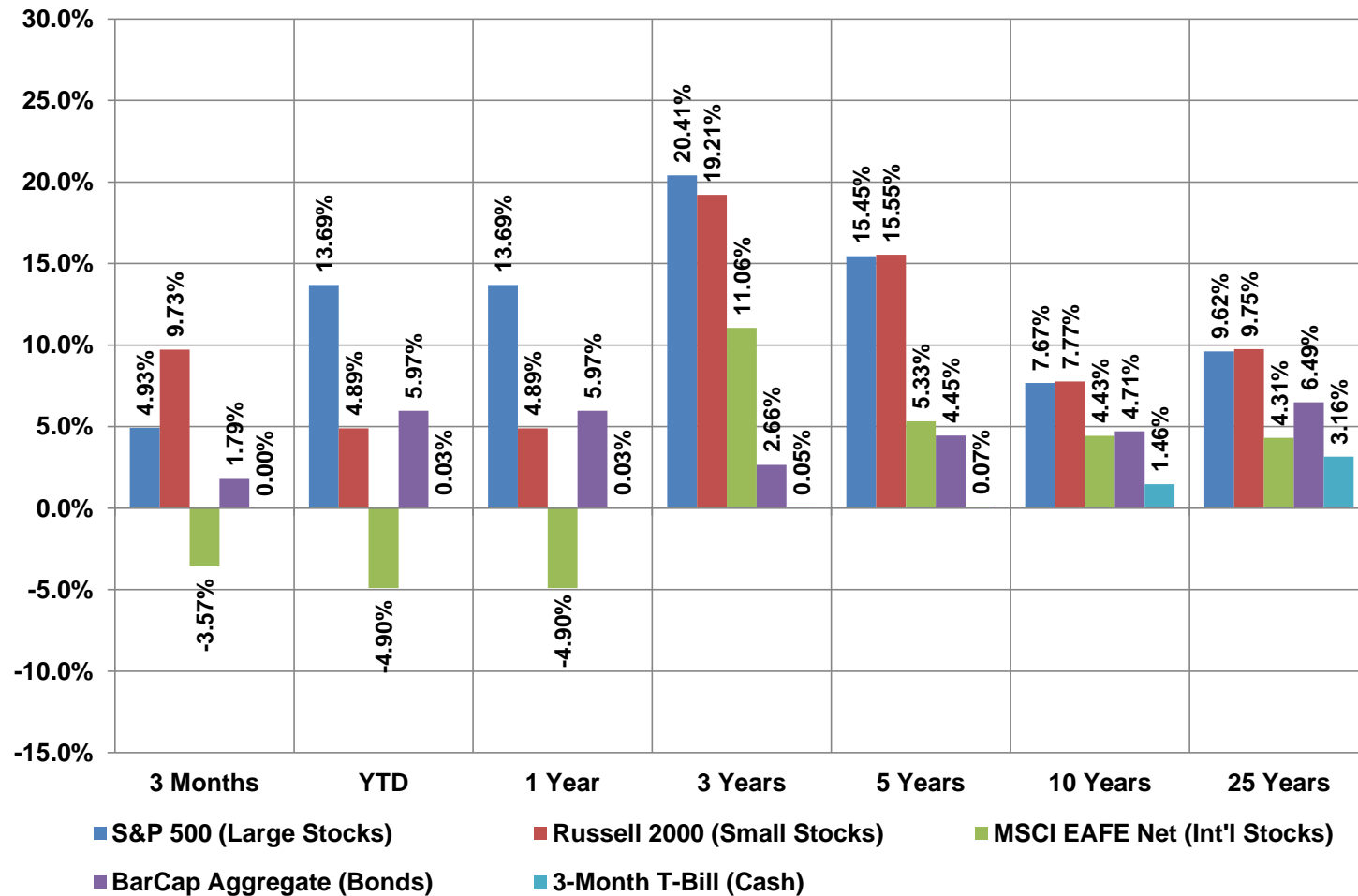


# Investment Market Review January 2015



- U.S. stocks produced positive returns during the fourth quarter with the S&P 500 index up 4.93%. U.S. bonds also produced positive returns during the fourth quarter with the Barclay's Capital US Aggregate index up 1.79%.
- Returns on emerging markets stocks were negative during the fourth quarter with the MSCI Emerging Markets index returning -4.50%. Emerging markets debt also posted negative returns during the fourth quarter with the JP Morgan Emerging Markets Bond index returning -1.65%. Investment managers and plans with emerging markets stock and emerging markets debt exposure tended to underperform peers with smaller allocations during the most recent quarter.
- The Federal Reserve ended its Quantitative Easing program in October 2014 with a final \$15 billion purchase. Inflation has moved closer to the Fed's threshold and unemployment has steadily been decreasing closer to the natural rate. The consensus view for short-term interest rate increases points to the middle of 2015.

## Capital Market Performance as of December 31, 2014



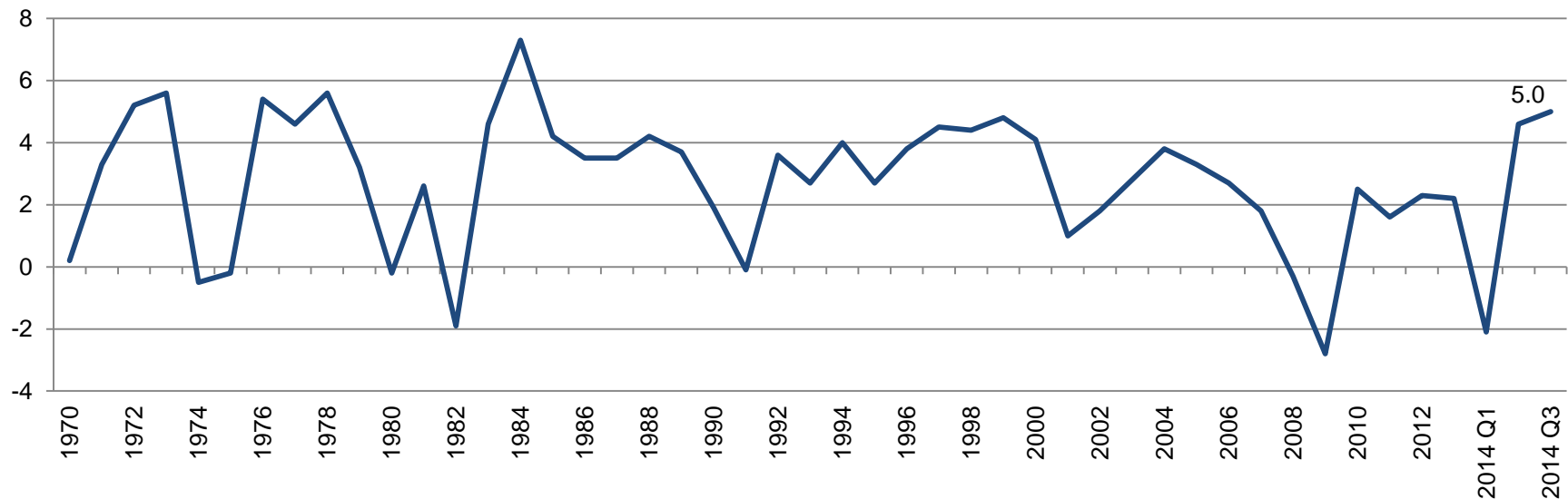
## S&amp;P 500 Index at Inflection Points



Source: Standard & Poor's, J.P Morgan Asset Management  
Returns based on S&P 500 Index Price Movement

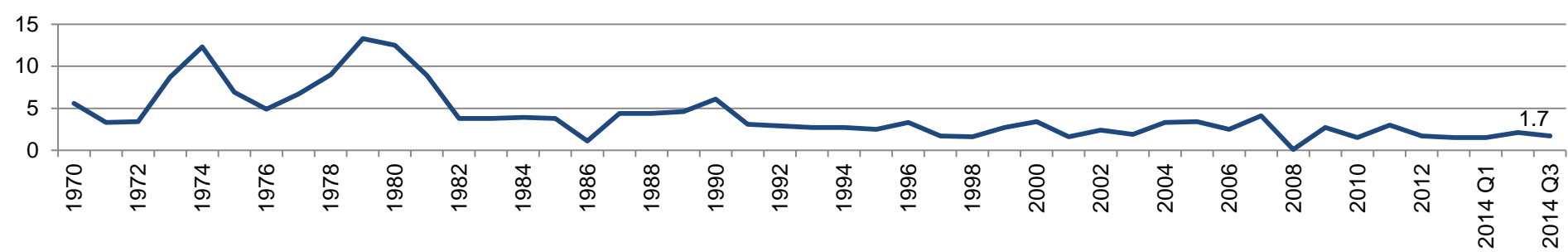
- The U.S. economy continues to grow. Annualized GDP growth was 5.0% during the third quarter of 2014, up from -2.1% in the first quarter. It is interesting to note that quarterly contractions in GDP greater than -1.5%, which occurred in the first quarter, have historically been associated with a recession, though that is contrary to consensus expectations that call for 3% annualized growth for the second half of 2014. Personal consumption expenditures, business investment, federal government spending, and exports were among the largest contributors to third quarter GDP.
- Fourth quarter estimates point to GDP growth of 3.1%, which would put the annualized growth for the second half of 2014 above earlier estimates of 3% annualized growth. Fourth quarter GDP numbers have not been released.

### Real GDP

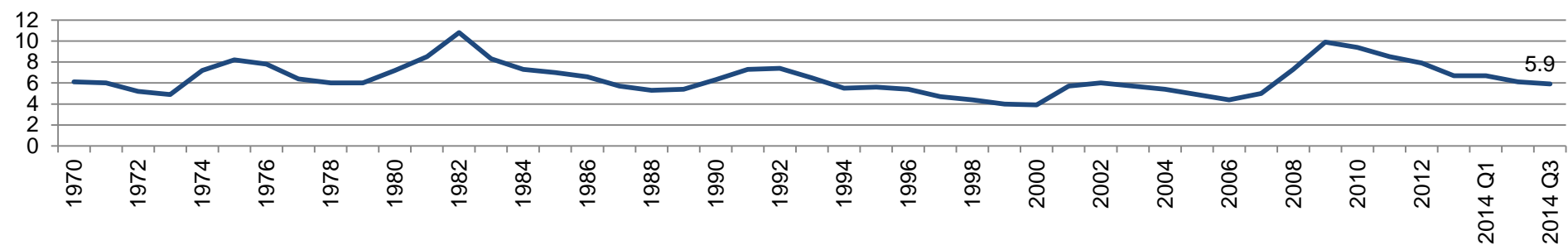


Source: BEA

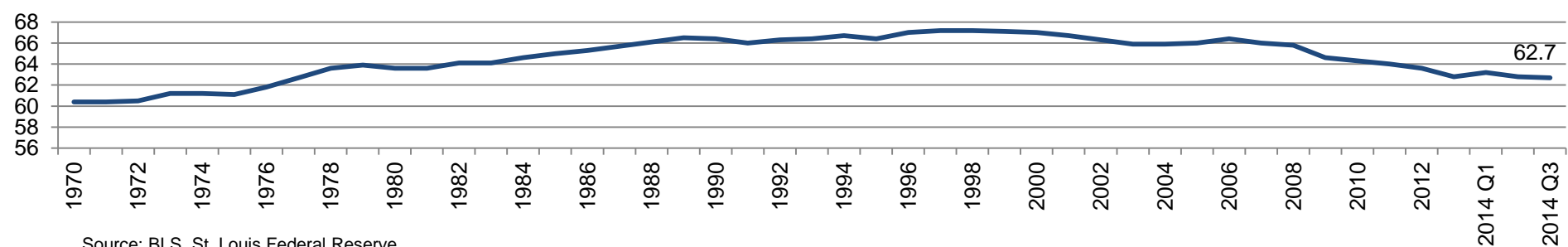
## Headline CPI



## Unemployment



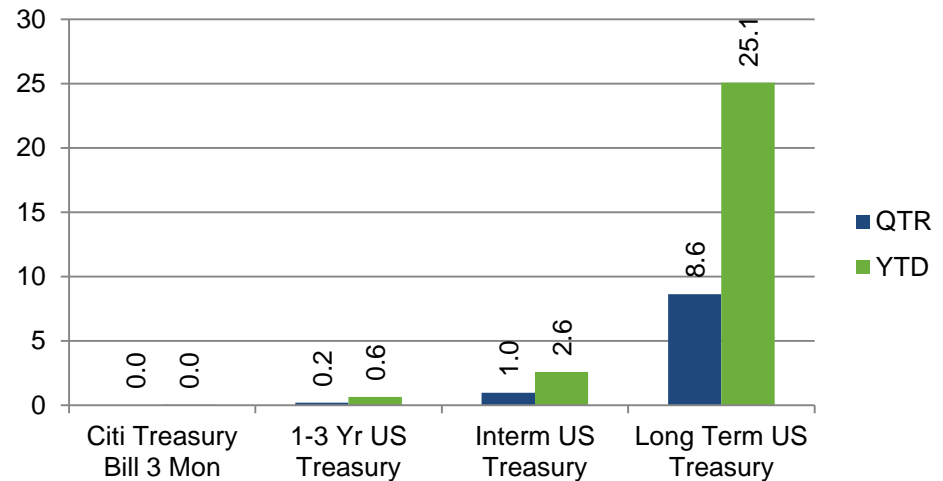
## Labor Force Participation Rate



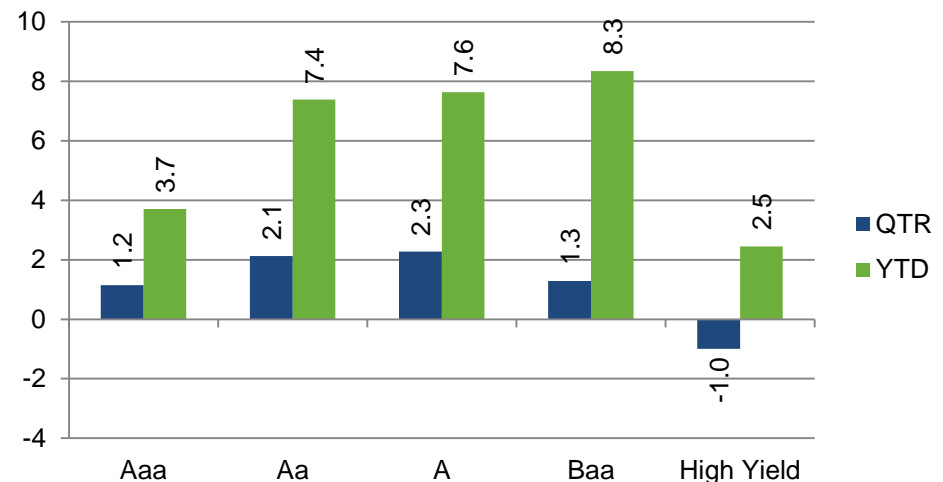
Source: BLS, St. Louis Federal Reserve

- The Federal Reserve Committee brought its Quantitative Easing program to an end at the October 2014 meeting with a final \$15 billion purchase. Since 2009 the Federal Reserve has added more than \$3.5 trillion to its balance sheet. Yellen has gone to great lengths to assure markets rates will stay near zero for some time following the end of QE. With inflationary pressure low and foreign economies slowing, the Fed may not feel pressure to raise rates as early as they anticipated. The consensus for any increase is mid 2015.
- **High Yield** dipped again in the fourth quarter, ending its run in the first half of 2014 and most of 2013. The pick up in employment and the potential for the Fed to end its near zero rates may put pressure on rates. However, the yield on 10 Year Treasury Notes has been sliding closer to 2% since the end of the third quarter.

### Bond Performance by Maturity



### Bond Performance by Quality

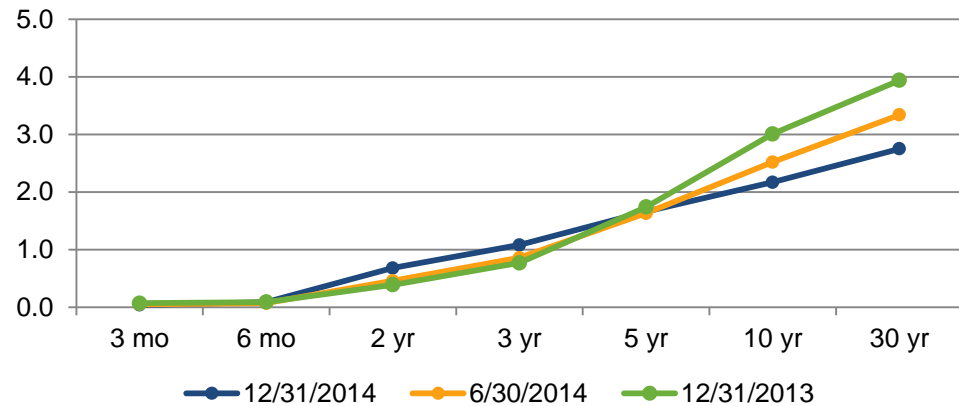


Source: Morningstar, Barclays Capital US Credit Indices



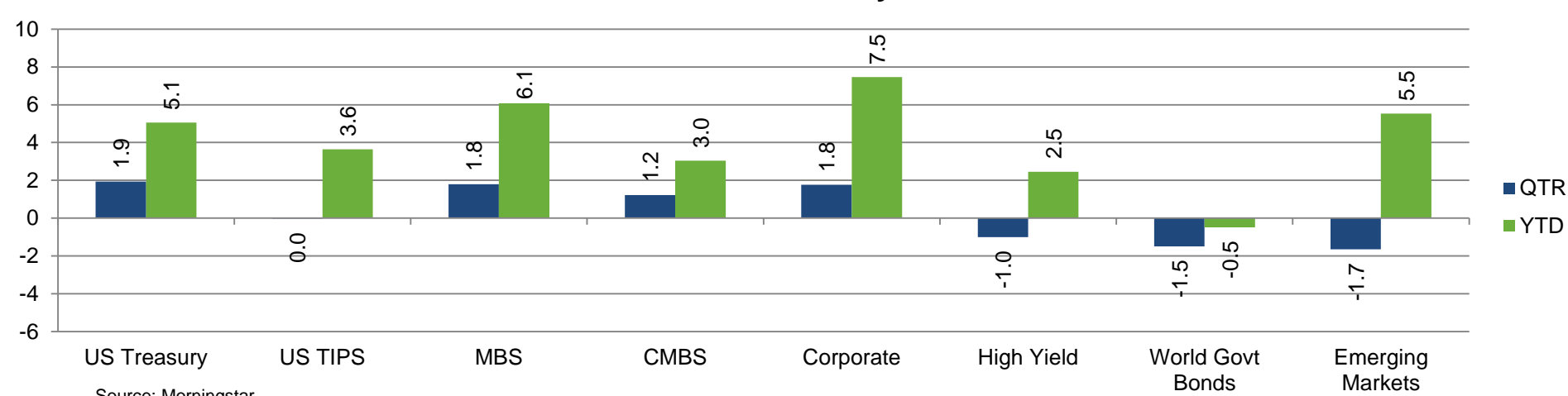
- The **Barclays Aggregate Index** returned 1.79% for the quarter outpacing 10 Year Treasuries, as the yield moved from 2.5% toward 2%. Treasuries decreased through mid October, rose briefly through the end of the month and then fell back.
- Long duration sectors generated the strongest returns, bolstered by lower rates and a flattening yield curve. **Long Gov/Credit** and **Long Treasuries** returned 5.60% and 8.62% for the quarter, respectively.

### US Treasury Yield Curve



Source: Barclays

### Bond Performance by Sectors

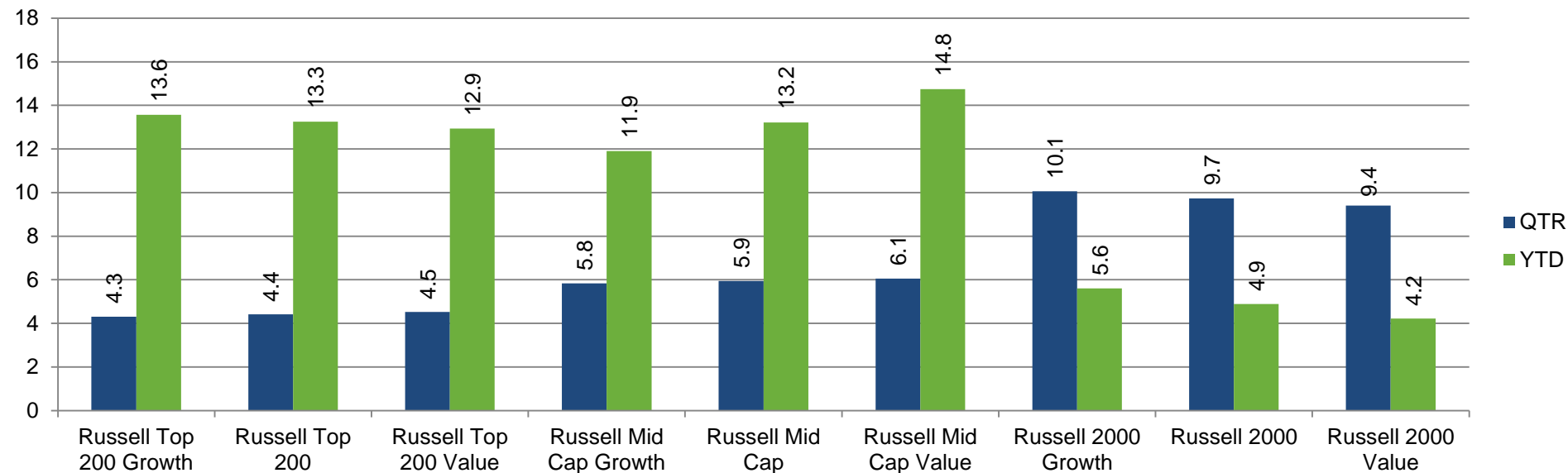


Source: Morningstar



- US Equities were up for the quarter, with the **S&P 500** returning 4.93%.
- In terms of market capitalization, large stocks (**Russell Top 200**) performed the worst, returning 4.41% for the quarter. In comparison, mid- and small-cap returned 5.94% and 9.73%, respectively, as measured by the **Russell Mid Cap** and the **Russell 2000**. This is in sharp contrast to the third quarter when small and mid cap stocks were negative.
- The ongoing easy money policies have helped US equities, and inflation concerns remain low allowing for continued aggressive monetary policies. Although inflation has increased slightly in the first half of 2014, it remains near the Fed's target rate of 2%. Third quarter inflation came in at 1.7% down from 2.1% in the second quarter.

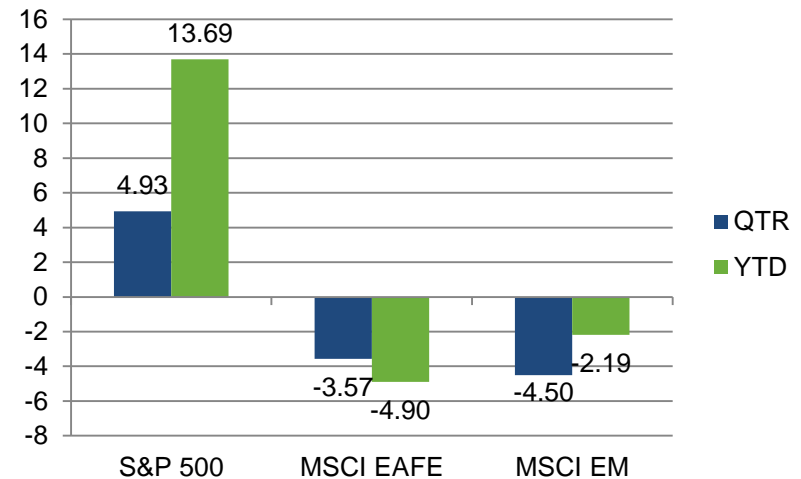
### US Stocks by Capitalization/Style



Source: Morningstar

- Returns in **International Equities** were negative over the quarter with developed market equities returning -3.57% for the fourth quarter.
- **Emerging Market Equities** underperformed their developed counterparts. The asset class was down -4.50% in the fourth quarter which turned YTD returns negative.
- In the fourth quarter, European equities suffered in response to disappointing economic data and a variety of geopolitical events that contributed to a sense of risk aversion. French equities lost -6.06% while German equities held steady at -0.39%. Portugal underperformed with a -23.01% loss. Japan was one of the better performing developed markets with a -2.42% return for the quarter.
- **European (ex UK) Equities** struggled as a region and returned -4.40% for the fourth quarter. The ECB is struggling with the threat of deflation, though fell short of implementing quantitative easing.

Global Stocks by Region



Source: Morningstar

## For Periods Ended December 31, 2014

	3 Months Return	6 Months Return	9 Months Return	1 Year Return	2 Years *Return	3 Years *Return	4 Years *Return	5 Years *Return	10 Years *Return
S&P 500 Index	4.93	6.12	11.67	13.69	22.68	20.41	15.55	15.45	7.67
NASDAQ	5.70	8.06	13.80	14.75	26.80	23.60	16.98	17.19	9.02
MSCI EAFE Index	-3.53	-9.16	-5.21	-4.48	8.52	11.56	5.22	5.81	4.91
MSCI Emerging Markets Index	-4.44	-7.65	-1.46	-1.82	-2.04	4.41	-1.76	2.11	8.78
MSCI All Country World ex USA	-3.81	-8.81	-4.02	-3.44	5.74	9.49	3.27	4.89	5.59
Russell 1000 Index	4.88	5.57	10.97	13.24	22.77	20.62	15.53	15.64	7.96
Russell Midcap Index	5.94	4.18	9.36	13.22	23.52	21.40	15.21	17.19	9.56
Russell 2000 Index	9.73	1.65	3.73	4.89	20.67	19.21	12.88	15.55	7.77
Russell 3000 Index	5.24	5.25	10.38	12.56	22.61	20.51	15.31	15.63	7.94
Russell 1000 Growth Index	4.78	6.34	11.80	13.05	22.84	20.26	15.59	15.81	8.49
Russell 1000 Value Index	4.98	4.78	10.13	13.45	22.62	20.89	15.40	15.42	7.30
Russell Midcap Growth Index	5.84	5.07	9.66	11.90	23.25	20.71	14.69	16.94	9.43
Russell Midcap Value Index	6.05	3.25	9.06	14.75	23.75	21.98	15.66	17.43	9.43
Russell 2000 Growth Index	10.06	3.31	5.09	5.60	23.02	20.14	13.91	16.80	8.54
Russell 2000 Value Index	9.40	0.01	2.40	4.22	18.40	18.29	11.83	14.26	6.89
NAREIT Equity REITs	14.20	10.61	18.33	30.14	15.48	16.33	14.27	16.88	8.31
Barclays Capital Intermediate G/C Bond Index	0.89	0.86	2.10	3.13	1.11	2.03	2.96	3.54	4.10
Barclays Capital Long Term G/C Bond Index	5.60	6.70	11.97	19.31	4.30	5.77	9.72	9.81	7.36
Barclays Capital Aggregate Bond Index	1.79	1.96	4.05	5.97	1.89	2.66	3.93	4.45	4.71
Barclays Capital U.S. TIPS	-0.03	-2.07	1.66	3.64	-2.68	0.44	3.57	4.11	4.37
Barclays Capital U.S. Government	1.86	2.19	3.56	4.92	1.09	1.40	3.25	3.70	4.29
Barclays Capital U.S. Corporate Inv Grade	1.77	1.69	4.39	7.46	2.87	5.13	5.88	6.49	5.53
Barclays Capital U.S. Corporate High Yield	-1.00	-2.85	-0.51	2.45	4.92	8.43	7.56	9.03	7.74
Citigroup Non-US WGBI USD	-2.91	-8.14	-5.71	-2.68	-3.62	-1.94	-0.21	0.85	2.64
JP Morgan EMBI Global Diversified USD	-0.55	-1.14	3.56	7.43	0.89	6.13	6.43	7.57	7.78
JP Morgan GBI EM Global Diversified USD	-5.71	-11.05	-7.47	-5.72	-7.36	0.07	-0.39	2.63	6.65
Citigroup 90-Day Treasury Bills	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	1.46
Citigroup Pension Liability Index	8.23	9.81	15.30	25.44	5.93	7.81	12.61	12.84	8.98

\* Returns greater than one year are annualized.

## Annual Returns

	2005 Return	2006 Return	2007 Return	2008 Return	2009 Return	2010 Return	2011 Return	2012 Return	2013 Return	2014 Return
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69
NASDAQ	1.37	9.90	10.55	-40.03	45.32	18.02	-0.83	17.45	40.12	14.75
MSCI EAFE Index	14.02	26.86	11.63	-43.06	32.46	8.21	-11.73	17.90	23.29	-4.48
MSCI Emerging Markets Index	34.54	32.55	39.82	-53.18	79.02	19.20	-18.17	18.63	-2.27	-1.82
MSCI All Country World ex USA	17.11	27.16	17.12	-45.24	42.14	11.60	-13.33	17.39	15.78	-3.44
Russell 1000 Index	6.27	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24
Russell Midcap Index	12.65	15.26	5.60	-41.46	40.48	25.48	-1.55	17.28	34.76	13.22
Russell 2000 Index	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89
Russell 3000 Index	6.12	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56
Russell 1000 Growth Index	5.26	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05
Russell 1000 Value Index	7.05	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45
Russell Midcap Growth Index	12.10	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90
Russell Midcap Value Index	12.65	20.22	-1.42	-38.44	34.21	24.75	-1.38	18.51	33.46	14.75
Russell 2000 Growth Index	4.15	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60
Russell 2000 Value Index	4.71	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22
NAREIT Equity REITs	12.16	35.06	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14
Barclays Capital Intermediate G/C Bond Index	1.58	4.08	7.39	5.08	5.24	5.89	5.80	3.89	-0.86	3.13
Barclays Capital Long Term G/C Bond Index	5.33	2.71	6.60	8.44	1.92	10.16	22.49	8.78	-8.83	19.31
Barclays Capital Aggregate Bond Index	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	5.97
Barclays Capital U.S. TIPS	2.84	0.41	11.64	-2.35	11.41	6.31	13.56	6.98	-8.61	3.64
Barclays Capital U.S. Government	2.65	3.48	8.66	12.39	-2.20	5.52	9.02	2.02	-2.60	4.92
Barclays Capital U.S. Corporate Inv Grade	1.68	4.30	4.56	-4.94	18.68	9.00	8.15	9.82	-1.53	7.46
Barclays Capital U.S. Corporate High Yield	2.74	11.85	1.87	-26.16	58.21	15.12	4.98	15.81	7.44	2.45
Citigroup Non-US WGBI USD	-9.20	6.94	11.45	10.11	4.39	5.21	5.17	1.51	-4.56	-2.68
JP Morgan EMBI Global Diversified USD	10.25	9.86	6.16	-12.03	29.82	12.24	7.35	17.44	-5.25	7.43
JP Morgan GBI EM Global Diversified USD	6.27	15.22	18.11	-5.22	21.98	15.68	-1.75	16.76	-8.98	-5.72
Citigroup 90-Day Treasury Bills	3.00	4.76	4.74	1.80	0.16	0.13	0.08	0.07	0.05	0.03
Citigroup Pension Liability Index	7.86	0.25	-2.89	17.57	4.61	13.76	28.33	11.66	-10.55	25.44